

**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive

Members of the Lincoln County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Moore Stephens Potter, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the Lincoln County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LINCOLN COUNTY FISCAL COURT**

June 30, 2005

Moore Stephens Potter, LLP has completed the audit of the Lincoln County Fiscal Court for the fiscal year ended June 30, 2005.

We have issued unqualified opinions, based on our audit and the reports of the other auditors, on the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky.

Financial Condition:

The Fiscal Court had net assets of \$7,199,447 as of June 30, 2005. The Fiscal Court had unrestricted net assets of \$1,908,766 in its governmental activities as of June 30, 2005, with total net assets of \$7,178,834. In its enterprise fund, total net cash and cash equivalents were \$20,613 with total net assets of \$20,613. The Fiscal Court's discretely presented component unit had net assets of \$74,010 as of June 30, 2005. The discretely presented component unit had net cash and cash equivalents of \$50,425. In its fiduciary fund, total cash and cash equivalents held in custody for others were \$12,142, with net assets of \$0. Total debt principal as of June 30, 2005, was \$5,760,725 with \$399,973 due within the next year.

Report Comment:

- The County Treasurer Should Prepare Bank Reconciliations For The Public Properties Corporation.

Deposits:

The Fiscal Court and component units' deposits were insured and collateralized by bank securities or bonds.

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MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive

Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lincoln County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Emergency Communication Commission, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Emergency Communication Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lincoln County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of June 30, 2005, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
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Members of the Lincoln County Fiscal Court

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lincoln County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2006 on our consideration of Lincoln County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comment and recommendation, included herein, which discusses the following report comments:

- The County Treasurer Should Prepare Bank Reconciliations For The Public Properties Corporation.

Respectfully submitted,

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

Moore Stephens Potter, LLP

Audit fieldwork completed -
February 22, 2006

LINCOLN COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Ronald W. Gilbert	County Judge/Executive
Earlin Cress	Magistrate
Mark Denham	Magistrate
Bill Dyehouse	Magistrate
Terry L. Wilcher	Magistrate

Other Elected Officials:

John E. Hackley	County Attorney
William David Gooch	Jailer
Sonny Spoonamore, IV	County Clerk
Teresa Reed	Circuit Court Clerk
Shelby R. Lakes	Sheriff
David Gambrel	Property Valuation Administrator
William Demrow	Coroner

Appointed Personnel:

Teresa Padgett	County Treasurer
Patricia Young	Occupational Tax Collector
Jessica Roark	Finance Officer

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LINCOLN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

LINCOLN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Emergency Communication Commission
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 2,890,236	\$ 20,613	\$ 2,910,849	\$ 50,425
Receivables Due From:				
Bank of New York	22,940		22,940	
Fiscal Court				111,698
Emergency Communication Commission	10,466		10,466	
Sub-leases Receivable	94,801		94,801	
Investments	500,000		500,000	
Total Current Assets	3,518,443	20,613	3,539,056	162,123
Noncurrent Assets:				
Sub-leases Receivable	1,094,550		1,094,550	
Debt Issuance Costs - Net of Accumulated Amortization	49,308		49,308	
Capital Assets - Net of Accumulated Depreciation				
Land	349,043		349,043	8,500
Construction In Progress	561,514		561,514	
Buildings	3,611,501		3,611,501	52,054
Equipment	424,528		424,528	26,725
Vehicles	215,218		215,218	
Infrastructure Assets - Net of Depreciation	3,115,454		3,115,454	
Total Noncurrent Assets	9,421,116	0	9,421,116	87,279
Total Assets	12,939,559	20,613	12,960,172	249,402
LIABILITIES				
Current Liabilities:				
Payroll Taxes				3,631
Due to Fiscal Court				19,466
Due to Emergency Communication Commission	111,698		111,698	
Due to Administrative Office of the Courts	14,000		14,000	
Bonds Payable	117,830		117,830	
Financing Obligations Payable	156,445		156,445	
Total Current Liabilities	399,973	0	399,973	23,097
Noncurrent Liabilities:				
Due After One Year				152,295
Bonds Payable	3,382,571		3,382,571	
Financing Obligations Payable	1,978,181		1,978,181	
Total Noncurrent Liabilities	5,360,752	0	5,360,752	152,295
Total Liabilities	5,760,725	0	5,760,725	175,392
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	3,882,780		3,882,780	37,682
Restricted for Capital Projects	1,438,486		1,438,486	
Unrestricted	1,857,568	20,613	1,878,181	36,328
Total Net Assets	\$ 7,178,834	\$ 20,613	\$ 7,199,447	\$ 74,010

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,602,572	\$ 182,024	\$ 363,898	\$
Protection to Persons and Property	1,043,254	800,708	122,351	
General Health and Sanitation	296,609	355,289	48,220	
Social Services	115,807			
Recreation and Culture	137,449	1,375	23,164	
Roads	1,222,736		992,708	160,000
Debt Service	231,281		156,426	
Capital Projects	741,451			324,708
Total Governmental Activities	<u>5,391,159</u>	<u>1,339,396</u>	<u>1,706,767</u>	<u>484,708</u>
Business-type Activities:				
Jail Canteen	114,065	111,948		
Total Business-type Activities	<u>114,065</u>	<u>111,948</u>	<u>0</u>	<u>0</u>
Total Primary Government	<u>\$5,505,224</u>	<u>\$1,451,344</u>	<u>\$1,706,767</u>	<u>\$ 484,708</u>
Component Unit:				
Emergency Communication Commission	<u>\$ 308,333</u>	<u>\$ 331,839</u>		

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Occupational Taxes
 Other Taxes
 Excess Fees
 Intergovernmental Revenues
 Not restricted
 Unrestricted Investment Earnings
 Other Revenues

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Emergency Communication Commission
\$ (1,056,650)	\$	\$ (1,056,650)	\$
(120,195)		(120,195)	
106,900		106,900	
(115,807)		(115,807)	
(112,910)		(112,910)	
(70,028)		(70,028)	
(74,855)		(74,855)	
(416,743)		(416,743)	
(1,860,288)	0	(1,860,288)	0
	(2,117)	(2,117)	
0	(2,117)	(2,117)	0
(1,860,288)	(2,117)	(1,862,405)	0
			23,506
485,792		485,792	
23,254		23,254	
135,847		135,847	
1,142,170		1,142,170	
202,268		202,268	
58,676		58,676	
118		118	
50,161		50,161	
154,583		154,583	
2,252,869	0	2,252,869	0
392,581	(2,117)	390,464	23,506
6,786,253	22,730	6,808,983	50,504
\$ 7,178,834	\$ 20,613	\$ 7,199,447	\$ 74,010

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road And Bridge Fund	Jail Fund	Federal Grants Fund
ASSETS				
Cash and Cash Equivalents	\$ 387,647	\$ 142,179	\$ 79,800	\$ 68,040
Receivable Due from Bank of New York				
Receivable Due from Emergency Communications Commission	10,466			
Investments				
Total Assets	<u>\$ 398,113</u>	<u>\$ 142,179</u>	<u>\$ 79,800</u>	<u>\$ 68,040</u>
LIABILITIES				
Due to Emergency Communications Commission	\$ 111,698	\$	\$	\$
Due to Administrative Office of the Courts				
Total Liabilities	111,698			
FUND BALANCES				
Reserved for:				
Encumbrances	144,588	40,254	20,459	
Unreserved:				
General Fund	141,827			
Special Revenue Funds		101,925	59,341	68,040
Debt Service Fund				
Total Fund Balances	<u>286,415</u>	<u>142,179</u>	<u>79,800</u>	<u>68,040</u>
Total Liabilities and Fund Balances	<u>\$ 398,113</u>	<u>\$ 142,179</u>	<u>\$ 79,800</u>	<u>\$ 68,040</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Occupational Tax Fund	Public Properties Corporation Fund	Non-Major Funds	Total Governmental Funds
\$ 766,108	\$ 1,414,854 22,940	\$ 31,608	\$ 2,890,236 22,940
			10,466
500,000			500,000
<u>\$ 1,266,108</u>	<u>\$ 1,437,794</u>	<u>\$ 31,608</u>	<u>\$ 3,423,642</u>
\$	\$	\$	\$ 111,698
	14,000		14,000
	14,000		125,698
27			205,328
			141,827
1,266,081		31,608	1,526,995
	1,423,794		1,423,794
<u>1,266,108</u>	<u>1,423,794</u>	<u>31,608</u>	<u>3,297,944</u>
<u>\$ 1,266,108</u>	<u>\$ 1,437,794</u>	<u>\$ 31,608</u>	<u>\$ 3,423,642</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 3,297,944
Amounts reported for governmental activities in the Statement Of Net Assets are different because:	
Sub-leases receivable - amount due to KACO Leasing Trust. Therefore, not available as funds to the County and not an asset in the governmental funds	1,189,351
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,327,466
Accumulated depreciation	(2,050,208)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due within one year - bonds, notes, and other principal payments	(274,275)
Due in more than one year - bonds, notes, and other principal payments	(5,360,752)
Bond issuance costs - net	49,308
Net Assets Of Governmental Activities	<u>\$ 7,178,834</u>

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road and Bridge Fund	Jail Fund
REVENUES			
Taxes	\$ 847,162	\$	\$
Excess Fees	58,676		
Licenses and Permits	125,161		
Intergovernmental	333,836	1,140,435	843,048
Charges for Services	317,131		50,176
Miscellaneous	214,974	31,082	26,263
Interest	5,493	1,502	477
Total Revenues	<u>1,902,433</u>	<u>1,173,019</u>	<u>919,964</u>
EXPENDITURES			
General Government	787,720		
Protection to Persons and Property	349,210		759,643
General Health and Sanitation	272,178	19,978	
Social Services	101,023		
Recreation and Culture	133,630		
Roads		1,450,769	
Debt Service	233,868		
Capital Projects	124,818	3,596	
Administration	426,852	230,760	168,244
Total Expenditures	<u>2,429,299</u>	<u>1,705,103</u>	<u>927,887</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(526,866)</u>	<u>(532,084)</u>	<u>(7,923)</u>
Other Financing Sources (Uses)			
KACO Financing Obligations Issued	320,295		
Sub-lease Passthrough	(320,295)		
General Obligation Bonds Issued			
Refunding Bonds Issued			
Payment to Refunded Bond Escrow Agent			
Bond Issuance Discounts			
Transfers From Other Funds	261,282	462,800	
Transfers To Other Funds	(31,828)		
Total Other Financing Sources (Uses)	<u>229,454</u>	<u>462,800</u>	<u>0</u>
Net Change in Fund Balances	(297,412)	(69,284)	(7,923)
Fund Balances - Beginning (Restated)	<u>583,827</u>	<u>211,463</u>	<u>87,723</u>
Fund Balances - Ending	<u>\$ 286,415</u>	<u>\$ 142,179</u>	<u>\$ 79,800</u>

The accompanying notes are an integral part of the financial statements.

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Federal Grants Fund	Occupational Tax Fund	Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 1,142,170	\$	\$	\$ 1,989,332
				58,676
				125,161
474,708		156,426	47,547	2,996,000
	61			367,368
8,417	820			281,556
	11,003	31,488	199	50,162
483,125	1,154,054	187,914	47,746	5,868,255
	52,430			840,150
				1,108,853
				292,156
				101,023
				133,630
			35,200	1,485,969
		244,915		478,783
613,037		561,514		1,302,965
	16,353			842,209
613,037	68,783	806,429	35,200	6,585,738
(129,912)	1,085,271	(618,515)	12,546	(717,483)
				320,295
				(320,295)
		2,000,000		2,000,000
		1,800,000		1,800,000
		(1,885,700)		(1,885,700)
		(72,329)		(72,329)
102,121		31,828		858,031
	(826,203)			(858,031)
102,121	(826,203)	1,873,799	0	1,841,971
(27,791)	259,068	1,255,284	12,546	1,124,488
95,831	1,007,040	168,510	19,062	2,173,456
\$ 68,040	\$ 1,266,108	\$ 1,423,794	\$ 31,608	\$ 3,297,944

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LINCOLN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ 1,124,488

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay 1,327,868

Depreciation Expense (380,796)

Collections on Sub-leases Receivable (84,510)

The issuance of debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

General Obligation Bonds Issued (2,000,000)

Refunding Bonds Issued (1,800,000)

Payment to Refunded Bond Escrow Agent 1,885,700

Amortization of Refunding Loss (5,800)

Bond Issuance Discounts 72,329

Amortization of Bond Issuance Discounts (2,630)

Deferral of Debt Issuance Costs 51,198

Current Year Amortization of Debt Issuance Costs (1,890)

KACO, KADD, and Ford Motor Credit financing obligations, and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

KACO financing obligations 119,807

KADD financing obligations 15,000

Ford Motor Credit financing obligations 21,817

Bond payments 50,000

Change in Net Assets of Governmental Activities \$ 392,581

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LINCOLN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

LINCOLN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 20,613
Total Current Assets	20,613
Net Assets	
Unrestricted	20,613
Total Net Assets	\$ 20,613

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 111,948
Operating Expenses	
Cost of Sales	75,617
Educational and Recreational	28,066
Personnel Costs	10,382
Total Operating Expenses	114,065
Operating Loss	(2,117)
Change In Net Assets	(2,117)
Total Net Assets - Beginning	22,730
Total Net Assets - Ending	\$ 20,613

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

LINCOLN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 111,948
Cost of Sales	(75,617)
Educational and Recreational	(28,066)
Personnel Costs	(10,382)
Net Cash Used By	
Operating Activities	(2,117)
Net Decrease in Cash and Cash	
Equivalents	(2,117)
Cash and Cash Equivalents - July 1, 2004	22,730
Cash and Cash Equivalents - June 30, 2005	\$ 20,613
Reconciliation of Operating Income to Net Cash Used by Operating Activities	
Operating Loss	\$ (2,117)
Net Cash Used By Operating	
Activities	\$ (2,117)

The accompanying notes are an integral part of the financial statements.

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LINCOLN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

LINCOLN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Cash and Cash Equivalents	\$ 12,142
Total Current Assets	<u>12,142</u>
Liabilities	
Amounts Held In Custody For Others	<u>12,142</u>
Total Liabilities	<u>12,142</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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**LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Sub-lease receivables are recognized on the Statement of Net Assets, but are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lincoln County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides service exclusively to the primary government, and the Fiscal Court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the County's primary government using the blending method.

Lincoln County Public Properties Corporation

The Lincoln County Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management has included the Corporation as part of the reporting entity, and the activity has been blended with that of the Fiscal Court.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit

The component unit's columns in the combined financial statements include the data of the following organization. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Lincoln County Emergency Communication Commission

The Lincoln County Emergency Communication Commission (the Commission) is a legally separate entity established to provide emergency response services to Lincoln County. The Commission's members are appointed independently of the Lincoln County Fiscal Court, and the Commission's governing body is substantially different from that of the Fiscal Court. The Fiscal Court is financially accountable because the Commission can not borrow any funds or enter into any financed capital purchase or lease/purchase agreement without prior approval of the Lincoln County Fiscal Court and the Fiscal Court must approve rate changes established by the Commission. Financial information for the Commission is presented discretely within Lincoln County's financial statements.

Audited financial statements for the Commission, a discretely presented component unit, may be requested by contacting the Lincoln County Emergency Communication Commission, 319 West Main Street, Stanford, Kentucky 40484.

C. Lincoln County Elected Officials Not Part Of Lincoln County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Lincoln County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lincoln County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus within the limitations of the modified cash basis of accounting as defined in item A above.

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available financial resources during a given period. These funds use fund balance (ending cash account balances) as the measure of available financial resources at the end of the period.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Measurement Focus (Continued)

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of changes in fund net assets, and cash flows. All assets and liabilities (whether current or non-current, financial or non-financial) associated with its activities are reported. Proprietary fund equity is classified as net assets.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor’s Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor’s Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor’s Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Federal Grants Fund - The primary purpose of this fund is to account for federal grant activity of the county. The primary sources of revenue for this fund are federal grants received directly from the federal government or passed through to the county from state government and required matching funds for the federal grants.

Occupational Tax Fund - This fund is used to account for the collection of occupational tax. The primary source of revenue for this fund is occupational employment tax and net profit tax.

Public Properties Corporation Fund - The primary purpose of this fund is to account for the activities of the Public Properties Corporation (PPC), a blended component unit of the county. The PPC issued debt to build a justice center. The PPC entered into a contract, lease, and option with the County and Administrative Office of the Courts (AOC), Commonwealth of Kentucky. The Kentucky Governor’s Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Law Enforcement Facilities Fund.

Special Revenue Funds

The Road and Bridge Fund, Jail Fund, Federal Grants Fund, Occupational Tax Fund, Local Government Economic Assistance Fund and Law Enforcement Facilities Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Debt Service Fund

The Public Properties Corporation is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, educational and recreational activities and administrative expenses.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The County's agency fund is used to account for monies held by the County in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only. Therefore, it has no measurement focus.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding are amortized on the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable premium or discount and deferred amount on refunding. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Debt proceeds are reported as other financing sources.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities. However, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level. However, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Public Properties Corporation because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund to comply with these requirements. The Governor's Office For Local Development does not require this fund to be budgeted.

J. Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the McKinney Water District is considered a related organization of the Lincoln County Fiscal Court.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Jointly Governed Organizations

The Stanford/Lincoln County Industrial Authority, whose purpose is to acquire and develop industrial sites and plants for the community, is a joint board of the County and City. The County Judge/Executive, with the approval of the Fiscal Court, appoints three members; and the Mayor, with the approval of the city council, appoints three members. The County has no equity interest. The County did not contribute any funds to the Stanford/Lincoln County Industrial Authority for the year ended June 20, 2005.

Note 2. Deposits

A. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Investments reported on the accompanying statement of net assets and balance sheet - governmental funds consist of a \$500,000 six-month nonnegotiable certificate of deposit.

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 331,243	\$ 17,800	\$	\$ 349,043
Construction In Progress		561,514		561,514
Total Capital Assets Not Being Depreciated	331,243	579,314	0	910,557
Capital Assets, Being Depreciated:				
Buildings	4,229,325	107,200		4,336,525
Equipment	591,965	127,508		719,473
Vehicles	349,376	50,900		400,276
Infrastructure	3,497,689	462,946		3,960,635
Total Capital Assets Being Depreciated	8,668,355	748,554	0	9,416,909
Less Accumulated Depreciation For:				
Buildings	(654,586)	(70,438)		(725,024)
Equipment	(251,542)	(43,403)		(294,945)
Vehicles	(150,505)	(34,553)		(185,058)
Infrastructure	(612,779)	(232,402)		(845,181)
Total Accumulated Depreciation	(1,669,412)	(380,796)	0	(2,050,208)
Total Capital Assets, Being Depreciated, Net	6,998,943	367,758	0	7,366,701
Governmental Activities Capital Assets, Net	\$ 7,330,186	\$ 947,072	\$ 0	\$ 8,277,258

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

Component Unit Activities:

Capital Assets Not Being Depreciated:

Land and Land Improvements	\$ 8,500	\$	\$	\$ 8,500
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Capital Assets, Being Depreciated:

Buildings	56,500	9,717		66,217
Equipment	11,666	18,887		30,553

Total Capital Assets Being

Depreciated	68,166	28,604	0	96,770
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Less Accumulated Depreciation For:

Buildings	(12,943)	(1,220)		(14,163)
Equipment	(1,200)	(2,628)		(3,828)

Total Accumulated Depreciation

	(14,143)	(3,848)	0	(17,991)
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Total Capital Assets, Being

Depreciated, Net	54,023	24,756	0	78,779
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Component Unit Activities Capital

Assets, Net	\$ 62,523	\$ 24,756	\$ 0	\$ 87,279
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Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 62,437
Protection to Persons and Property	22,990
General Health and Sanitation	6,953
Social Services	14,784
Recreation and Culture	3,819
Roads, Including Depreciation of General Infrastructure Assets	269,813
Total Depreciation Expense - Governmental Activities	\$ 380,796

Component Unit Activities:

Protection to Persons and Property	\$ 3,848
Total Depreciation Expense - Component Unit Activities	\$ 3,848

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Short-term Debt

In July 2004, Lincoln County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$660,100, with principal being due in January 2005. While the County did not use the borrowed funds in order to meet current General Fund expenses, it was able to reinvest the funds and receive interest income of \$9,236, while paying interest expense of \$7,208, with net interest earnings being \$2,027.

Changes In Short-term Liabilities

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Kentucky Advance Revenue Program	<u>\$ 0</u>	<u>\$ 660,100</u>	<u>\$ 660,100</u>	<u>\$ 0</u>

Note 5. Long-term Debt

A. First Mortgage Revenue Refunding Bonds

On October 1, 2004, the Public Properties Corporation issued \$1,800,000 in First Mortgage Revenue Refunding Bonds, Series 2004, with interest rates ranging between 2.00% and 4.60%. The Corporation issued the bonds to advance refund \$1,700,000 of the outstanding series 1996 First Mortgage Revenue Bonds with interest rates ranging between 5.00% and 6.50%. The Corporation used the net proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1996 series bonds. As a result, that portion of the 1996 series bonds is considered defeased, and the Corporation has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$1,665,000 at June 30, 2005.

The advance refunding reduced total debt service payments over the next 22 years by more than \$243,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$166,382.

Additionally, as a result of this refunding the Fiscal Court has recognized a deferred amount on the refunding in the amount of \$185,000. This amount represents the difference between the reacquisition price relative to the Series 1996 bonds outstanding (including the 102% call premium) and the net carrying amount of the Series 1996 bonds (including the unamortized discount and debt issuance costs). The unamortized deferred amount on the refunding is reported in the accompanying statement of net assets as a deduction from the outstanding revenue bonds payable as of June 30, 2005.

<u>Fiscal Year Ending June 30</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>	<u>Total to be Paid by the AOC</u>
2006	\$ 60,000	\$ 65,970	\$ 125,970	\$ 125,970
2007	60,000	64,770	124,770	124,770
2008	65,000	63,270	128,270	128,270
2009	65,000	61,645	126,645	126,645
2010-2014	345,000	278,205	623,205	623,205
2015-2019	415,000	211,880	626,880	626,880
2020-2024	505,000	121,460	626,460	626,460
2025-2026	235,000	16,215	251,215	251,215
Totals	<u>\$ 1,750,000</u>	<u>\$ 883,415</u>	<u>\$ 2,633,415</u>	<u>\$ 2,633,415</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

B. General Obligation Improvement Bonds

On September 1, 2004, Lincoln County authorized its General Obligation Improvement Bonds, Series 2004, in the principal amount of \$2,000,000 for the purpose of financing site development of a new countywide recreational park. Principal payments are due annually by August 1. The total principal balance outstanding as of June 30, 2005 was \$2,000,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Scheduled Interest	Principal Payment
2006	\$ 74,210	\$ 70,000
2007	72,579	75,000
2008	70,891	75,000
2009	69,091	75,000
2010-2014	308,265	425,000
2015-2019	222,975	510,000
2020-2024	105,068	625,000
2025	3,335	145,000
Totals	<u>\$ 926,414</u>	<u>\$2,000,000</u>

C. First Southern Veterans Park

On May 2, 2003, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the acquisition of land for the First Southern Veterans Park. Principal payments are due monthly. The total lease principal balance outstanding as of June 30, 2005 was \$94,235. Future principal and interest requirements are:

Fiscal Year Ending June 30	Scheduled Interest	Principal Payment
2006	\$ 2,654	\$ 10,604
2007	2,338	10,920
2008	2,016	11,246
2009	1,680	11,581
2010-2013	3,178	49,884
Totals	<u>\$ 11,866</u>	<u>\$ 94,235</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

D. Emergency Communication Commission – Financing Obligations and Sub-leases Receivable

1. Emergency Communication Building

On August 21, 1992, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACO Leasing Trust for the purchase of an Emergency Communication building facility. Principal payments are due annually by January 20. The County subsequently entered into an agreement with the Emergency Communication Commission which reimburses the County for the lease payments. The total lease principal balance outstanding as of June 30, 2005 was \$31,000. The total sub-lease receivable balance still due the County as of June 30, 2005, was also \$31,000. Future principal and interest requirements are:

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Principal</u> <u>Payment</u>	<u>Total</u> <u>Payment</u>	<u>Total to be</u> <u>Paid by the</u> <u>Commission</u>
2006	\$ 1,558	\$ 4,000	\$ 5,558	\$ 5,558
2007	1,345	4,000	5,345	5,345
2008	1,112	5,000	6,112	6,112
2009	865	4,000	4,865	4,865
2010-2012	<u>1,233</u>	<u>14,000</u>	<u>15,233</u>	<u>15,233</u>
Totals	<u>\$ 6,113</u>	<u>\$ 31,000</u>	<u>\$ 37,113</u>	<u>\$ 37,113</u>

2. Emergency Communication Building Renovation

On February 14, 2005, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACO Leasing Trust for renovations to the Emergency Communication Building. Principal payments are due annually by July 20. The County subsequently entered into an agreement with the Emergency Communication Commission which reimburses the County for the lease payments. The total lease principal balance outstanding as of June 30, 2005 was \$130,295. The total sub-lease receivable balance still due the County as of June 30, 2005, was also \$130,295. Future principal and interest requirements are:

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Principal</u> <u>Payment</u>	<u>Total</u> <u>Payment</u>	<u>Total to be</u> <u>Paid by the</u> <u>Commission</u>
2006	\$ 6,376	\$ 5,000	\$ 11,376	\$ 11,376
2007	6,120	5,000	11,120	11,120
2008	5,876	5,000	10,876	10,876
2009	5,620	5,000	10,620	10,620
2010-2014	24,322	25,000	49,322	49,322
2015-2019	18,023	25,000	43,023	43,023
2020-2024	8,058	50,000	58,058	58,058
2025	<u>48</u>	<u>10,295</u>	<u>10,343</u>	<u>10,343</u>
Totals	<u>\$ 74,443</u>	<u>\$ 130,295</u>	<u>\$ 204,738</u>	<u>\$ 204,738</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

E. City of Stanford – Financing Obligations and Sub-lease Receivable

On April 6, 1996, the Lincoln County Fiscal Court entered into a 23-year leasing agreement with KACO Leasing Trust for the City of Stanford's Pine Hall Water Project. Principal payments are due annually by January 20. The County subsequently entered into a sub-lease agreement with the City of Stanford which reimburses the County for the lease payments. The total lease principal balance outstanding as of June 30, 2005 was \$385,000. The total sub-lease receivable balance still due the County as of June 30, 2005, was also \$385,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Scheduled Interest	Principal Payment	Total Payment	Total to be Paid by the City of Stanford
2006	\$ 23,333	\$ 20,000	\$ 43,333	\$ 43,333
2007	22,068	21,000	43,068	43,068
2008	20,741	22,000	42,741	42,741
2009	19,353	23,000	42,353	42,353
2010-2014	73,652	132,000	205,652	205,652
2015-2019	27,653	167,000	194,653	194,653
Totals	<u>\$ 186,800</u>	<u>\$ 385,000</u>	<u>\$ 571,800</u>	<u>\$ 571,800</u>

F. Fire Districts – Financing Obligations and Sub-leases Receivable

1. Fire Trucks

On April 5, 2001, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the purchase of two fire trucks. Principal payments are due annually by January 20. The County subsequently entered into an agreement with the Fire District which reimburses the County for the lease payments. The total lease principal balance outstanding as of June 30, 2005 was \$165,108. The total sub-lease receivable balance still due the County as of June 30, 2005 was also \$165,108. Future principal and interest requirements are:

Fiscal Year Ending June 30	Scheduled Interest	Principal Payment	Total Payment	Total to be Paid by the Fire District
2006	\$ 7,716	\$ 25,000	\$ 32,716	\$ 32,716
2007	6,448	26,000	32,448	32,448
2008	5,131	27,000	32,131	32,131
2009	3,763	28,000	31,763	31,763
2010-2011	3,222	59,108	62,330	62,330
Totals	<u>\$ 26,280</u>	<u>\$ 165,108</u>	<u>\$ 191,388</u>	<u>\$ 191,388</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

F. Fire Districts – Financing Obligations and Sub-leases Receivable (Continued)

2. Fire Truck

On December 6, 2001, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the purchase of a fire truck. Principal payments are due annually by January 20. The County subsequently entered into an agreement with the Fire District which reimburses the County for the lease payments. The total lease principal balance outstanding as of June 30, 2005 was \$92,348. The total sub-lease receivable balance still due the County as of June 30, 2005 was also \$92,348. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payment</u>	<u>Total Payment</u>	<u>Total to be Paid by the Fire District</u>
2006	\$ 4,314	\$ 11,692	\$ 16,006	\$ 16,006
2007	3,728	12,160	15,888	15,888
2008	3,118	12,646	15,764	15,764
2009	2,484	13,152	15,636	15,636
2010-2012	<u>3,389</u>	<u>42,698</u>	<u>46,087</u>	<u>46,087</u>
Totals	<u>\$ 17,033</u>	<u>\$ 92,348</u>	<u>\$ 109,381</u>	<u>\$ 109,381</u>

3. Fire Pumper Trucks

On April 22, 2003, the Lincoln County Fiscal Court entered into a 10-year leasing agreement with KACO Leasing Trust for the purchase of two fire pumper trucks. Principal payments are due monthly. The County subsequently entered into an agreement with the Fire District which reimburses the County for the lease payments. The total lease principal balance outstanding as of June 30, 2005 was \$200,892. The total sub-lease receivable balance still due the County as of June 30, 2005 was also \$200,892. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payment</u>	<u>Total Payment</u>	<u>Total to be Paid by the Fire District</u>
2006	\$ 8,031	\$ 21,867	\$ 29,898	\$ 29,898
2007	7,093	22,799	29,892	29,892
2008	6,126	23,771	29,897	29,897
2009	5,089	24,784	29,873	29,873
2010-2013	<u>9,306</u>	<u>107,671</u>	<u>116,977</u>	<u>116,977</u>
Totals	<u>\$ 35,645</u>	<u>\$ 200,892</u>	<u>\$ 236,537</u>	<u>\$ 236,537</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

F. Fire Districts – Financing Obligations and Sub-leases Receivable (Continued)

4. Fire Station

On August 31, 2004, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACO Leasing Trust for the acquisition of land for a County fire station. Principal payments are due monthly. The County subsequently entered into an agreement with the Fire District which reimburses the County for the lease payments. The total lease principal balance outstanding as of June 30, 2005 was \$184,707. The total sub-lease receivable balance still due the County as of June 30, 2005 was also \$184,707. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payment</u>	<u>Total Payment</u>	<u>Total to be Paid by the Fire District</u>
2006	\$ 5,380	\$ 7,241	\$ 12,621	\$ 12,621
2007	5,162	7,457	12,619	12,619
2008	4,947	7,680	12,627	12,627
2009	4,715	7,909	12,624	12,624
2010-2014	19,901	43,226	63,127	63,127
2015-2019	13,078	50,069	63,147	63,147
2020-2024	5,176	57,995	63,171	63,171
2025	30	3,130	3,160	3,160
Totals	<u>\$ 58,389</u>	<u>\$ 184,707</u>	<u>\$ 243,096</u>	<u>\$ 243,096</u>

G. Senior Citizens Center

On May 16, 2001, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KACO Leasing Trust for the construction of a Senior Citizens Center. Principal payments are due annually by January 20. The total lease principal balance outstanding as of June 30, 2005 was \$555,000. Future principal and interest requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Principal Payment</u>
2006	\$ 30,940	\$ 25,000
2007	29,520	25,000
2008	28,100	25,000
2009	26,679	25,000
2010-2014	108,138	160,000
2015-2019	57,478	200,000
2020-2021	5,989	95,000
Totals	<u>\$ 286,844</u>	<u>\$ 555,000</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

H. Courthouse Annex

On June 24, 1999, the Lincoln County Fiscal Court entered into a 20-year leasing agreement with KADD Financing Trust for construction costs to complete the second floor of the courthouse annex. In accordance with a sublease agreement between the Administrative Office of the Courts (AOC) and the Lincoln County Fiscal Court dated April 15, 1998, AOC committed itself to participate in providing part of the costs of completing the second floor of the courthouse annex through use allowance payments. As of October 1, 2004, the AOC committed itself to provide all of the costs associated with the KADD Revenue bonds directly to the bond trustee, the Bank of New York. The total principal balance outstanding as of June 30, 2005 was \$285,000. Future principal and interest requirements are:

Fiscal Year Ending June 30	Principal Payment	Interest Payment	Trustee Fee	Total Payment	Total to be Paid by the AOC
2006	\$ 15,000	\$ 15,145	\$ 500	\$ 30,645	\$ 30,645
2007	15,000	14,410	500	29,910	29,910
2008	15,000	13,675	500	29,175	29,175
2009	15,000	12,940	500	28,440	28,440
2010	15,000	12,205	500	27,705	27,705
2011-2015	90,000	48,305	2,500	140,805	140,805
2016-2020	120,000	20,350	2,500	142,850	142,850
Totals	<u>\$ 285,000</u>	<u>\$ 137,030</u>	<u>\$ 7,500</u>	<u>\$ 429,530</u>	<u>\$ 429,530</u>

I. Sheriff's Cruisers

On February 4, 2003, the Lincoln County Fiscal Court entered into a 4-year leasing agreement with Ford Motor Credit Company for the purchase of two Sheriff's cruisers. Payments are due annually by February 4.

Fiscal Year Ending June 30	Scheduled Interest	Principal Payment
2006	<u>\$ 685</u>	<u>\$ 11,041</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

J. Changes in Sub-leases Receivable

Sub-lease receivable activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Receivable Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Emergency Communication Commission	\$ 35,000	\$ 130,295	\$ 4,000	\$ 161,295	\$ 9,000
City of Stanford	404,000		19,000	385,000	20,000
Fire Districts	514,566	190,000	61,510	643,056	65,801
Governmental Activities Sub-leases Receivable	<u>\$ 953,566</u>	<u>\$ 320,295</u>	<u>\$ 84,510</u>	<u>\$1,189,351</u>	<u>\$ 94,801</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

K. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
1996 First Mortgage Revenue Bonds	\$1,700,000	\$	\$1,700,000	\$	\$
2004 First Mortgage Revenue Bonds		1,800,000	50,000	1,750,000	60,000
Parks Project Bonds		2,000,000		2,000,000	70,000
KACO Financing Obligations	1,638,097	320,295	119,807	1,838,585	130,404
KADD Financing Obligation	300,000		15,000	285,000	15,000
Ford Motor Credit Company - Sheriff's Cruisers	32,858		21,817	11,041	11,041
	3,670,955	4,120,295	1,906,624	5,884,626	286,445
Unamortized Discount		(72,329)	(2,630)	(69,699)	(3,500)
Unamortized Deferred Amount on Refunding		(185,700)	(5,800)	(179,900)	(8,670)
Governmental Activities Long-term Liabilities	<u>\$3,670,955</u>	<u>\$3,862,266</u>	<u>\$1,898,194</u>	<u>\$5,635,027</u>	<u>\$ 274,275</u>
<u>Component Unit Activities:</u>					
Lincoln County Fiscal Court Financing Obligations	\$ 35,000	\$ 130,295	\$ 4,000	\$ 161,295	\$ 9,000
Component Unit Activities Long-term Liabilities	<u>\$ 35,000</u>	<u>\$ 130,295</u>	<u>\$ 4,000</u>	<u>\$ 161,295</u>	<u>\$ 9,000</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$92,245 in interest on financing obligations and \$128,717 in interest on bonds.

Note 7. Sublease Agreements

A. On August 21, 1992, the Lincoln County Fiscal Court entered into a 20-year lease agreement with KACO Leasing Trust for the purchase of an Emergency Communication building. On that same date, Lincoln County Fiscal Court and Lincoln County Emergency Communication Commission (the Commission) entered into a sublease which stated that for and in consideration of the Commission being allowed to utilize the properties as set up in the KACO Leasing Trust agreement with the County, the Commission will reimburse the County all rental payments as set out in the County's KACO Leasing Trust agreement. As of June 30, 2005, the Commission was in substantial compliance with the agreement. (See note 5.D.)

B. On April 4, 1996, the Lincoln County Fiscal Court entered into a 23-year leasing agreement with KACO Leasing Trust for the City of Stanford's Pine Hall Water Project. On that same date, Lincoln County Fiscal Court and the City of Stanford entered into a sublease which stated the City of Stanford will reimburse the County all rental payments as set out in the County's KACO Leasing Trust agreement. As of June 30, 2005, the City of Stanford was in substantial compliance with the agreement. (See note 5.E.)

Note 8. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their annual creditable compensation to the plan. The County's contribution rate for non-hazardous employees was 8.48 percent of each employee's creditable compensation. Hazardous covered employees are required to contribute 8 percent of their salary annual creditable compensation to the plan. The County's contribution rate for hazardous employees was 22.08 percent of each employee's creditable compensation.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

For the period from July 1, 2005 through June 30, 2006 the County's contribution rate has increased to 10.98% and 25.01% for each non-hazardous and hazardous covered employee's annual creditable compensation respectively.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 9. Deferred Compensation

Lincoln County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

The Kentucky Public Employees' Deferred Compensation Authority's annual financial report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2005, Lincoln County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Interfund Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
Occupational Tax	Federal Grants Fund	Federal Grant Activities	\$ 102,121
Occupational Tax	General Fund	General Government Activities	261,282
Occupational Tax	Road Fund	Road and Bridge Activities	462,800
General	Public Properties Corporation	Debt Service Requirements	31,828
Total			<u>\$ 858,031</u>

Note 12. Contingencies

As a result of the modified cash basis of accounting, the financial statements do not include an accrual or provision for loss contingencies. The County is a party to various legal proceedings that normally occur in the course of governmental operations. One of the proceedings has been filed as a civil action seeking both punitive damages and attorney's fees which are not covered by the County's insurance policy. While the outcome of these proceedings cannot be predicted, due to insurance coverage maintained by the County, the County believes that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the County.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 13. Subsequent Events

During the 2005 Legislative Session, Governor Fletcher and the General Assembly of Kentucky awarded the following funds to Lincoln County for infrastructure projects which will include water line extensions and repairs, sewer extensions and repairs, and new water and sewer lines. There are a total of eight separate projects and the total amount Lincoln County will receive is \$1,500,000. Lincoln County has entered into "Professional Service Agreements" with Bluegrass Area Development District at costs not to exceed \$22,500 to assist the County in meeting the administrative requirements of Kentucky Infrastructure Authority.

On June 28, 2005 Lincoln County was notified of being awarded a Hazard Mitigation Grant. Lincoln County will acquire and demolish up to two residential structures and their surrounding lots to eliminate future flood damages to these structures. In addition, there is one flood prone mobile home park approved. The total projected cost of this project is \$397,495 consisting of \$344,035 federal funds and \$53,460 County funds. The Lincoln County Fiscal Court will be reimbursed for eligible expenses upon submission of documentation of expenses.

Lincoln County has submitted a grant pre-application for a project under the CEGG (Community Economic Growth Grant) Program. The amount requested is \$350,000 and will be used in the First Southern Veterans Park, which is currently being developed. The funds will be used for a Community Center and office. The building will be located at the new entrance to the park currently under construction. Lincoln County had to document its commitment to this project in the amount of \$279,070 which was done by letter in the form of the General Obligation Improvement Bonds (Series 2004) which the County bonded for Phase I and Phase II of the FSV Park.

On July 1, 2005 a \$13,785 advanced revenue note was issued at 3.821%, through the Kentucky Association of Counties Kentucky Advanced Revenue Program with a maturity date of January 30, 2006.

Note 14. Prior Period Adjustments

The following prior period adjustments are reflected in the accompanying financial statements as a restatement of fund balances/net assets as previously reported at June 30, 2004. The adjustments are:

Prior Period Fund Balance Adjustment - General Fund

Prior Period Fund Balance Adjustment - General Fund

June 30, 2004 Fund Balance - General Fund	\$ 573,361
Items Not Previously Recorded:	
FY 2004 Receivable Due From Emergency	
Communications Commission	<u>10,466</u>
June 30, 2004 Adjusted Fund Balance - General Fund	<u>\$ 583,827</u>

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 14. Prior Period Adjustments (Continued)

Prior Period Net Asset Adjustment - Primary Government

Prior Period Net Asset Adjustment - Primary Government

June 30, 2004 Net Asset Balance - Governmental Activities	\$	5,884,744
Items Not Previously Recorded:		
FY 2004 Receivable due from Fire Districts		514,566
FY 2004 Receivable due from Water District		404,000
FY 2004 Receivable due from Emergency Communications Commission		45,466
FY 2004 Emergency Communications Commission Assets recorded on the County's books		<u>(62,523)</u>
June 30, 2004 Net Asset Balance - Governmental Activities	\$	<u>6,786,253</u>

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LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 765,000	\$ 765,000	\$ 847,162	\$ 82,162
Excess Fees	80,098	80,098	58,676	(21,422)
Licenses and Permits	74,300	74,300	125,161	50,861
Intergovernmental Revenue	443,804	443,804	333,836	(109,968)
Charges for Services	336,500	336,500	317,131	(19,369)
Miscellaneous	190,095	190,095	214,974	24,879
Interest	5,000	5,000	5,493	493
Total Revenues	<u>1,894,797</u>	<u>1,894,797</u>	<u>1,902,433</u>	<u>7,636</u>
EXPENDITURES				
General Government	849,810	849,810	787,720	62,090
Protection to Persons and Property	403,809	534,104	349,210	184,894
General Health and Sanitation	326,832	326,832	272,178	54,654
Social Services	119,039	119,039	101,023	18,016
Recreation and Culture	183,911	183,911	133,630	50,281
Debt Service	291,772	291,772	233,868	57,904
Capital Projects	125,338	315,338	124,818	190,520
Administration	446,963	446,963	426,852	20,111
Total Expenditures	<u>2,747,474</u>	<u>3,067,769</u>	<u>2,429,299</u>	<u>638,470</u>
Deficiency of Revenues Over Expenditures Before Other Financing Uses	<u>(852,677)</u>	<u>(1,172,972)</u>	<u>(526,866)</u>	<u>646,106</u>
OTHER FINANCING SOURCES (USES)				
KACO Financing Obligations Issued		320,295	320,295	0
Sub-lease Passthrough			(320,295)	(320,295)
Transfers From Other Funds	261,282	261,282	261,282	0
Transfers To Other Funds			(31,828)	(31,828)
Total Other Financing Sources	<u>261,282</u>	<u>581,577</u>	<u>229,454</u>	<u>(352,123)</u>
Net Changes in Fund Balance	(591,395)	(591,395)	(297,412)	293,983
Fund Balance - Beginning (Restated)	<u>591,395</u>	<u>591,395</u>	<u>583,827</u>	<u>(7,568)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 286,415</u>	<u>\$ 286,415</u>

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

ROAD AND BRIDGE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,070,788	\$ 1,120,788	\$ 1,140,435	\$ 19,647
Miscellaneous	2,000	2,000	31,082	29,082
Interest	1,500	1,500	1,502	2
Total Revenues	1,074,288	1,124,288	1,173,019	48,731
EXPENDITURES				
General Health and Sanitation	21,000	21,000	19,978	1,022
Roads	1,372,188	1,554,564	1,450,769	103,795
Capital Projects	110,000	41,000	3,596	37,404
Administration	333,900	270,524	230,760	39,764
Total Expenditures	1,837,088	1,887,088	1,705,103	181,985
Deficiency of Revenues Over Expenditures Before Other Financing Uses	(762,800)	(762,800)	(532,084)	230,716
OTHER FINANCING SOURCES				
Transfers From Other Funds	462,800	462,800	462,800	0
Total Other Financing Sources	462,800	462,800	462,800	0
Net Changes in Fund Balance	(300,000)	(300,000)	(69,284)	230,716
Fund Balance - Beginning	300,000	300,000	211,463	(88,537)
Fund Balance - Ending	\$ 0	\$ 0	\$ 142,179	\$ 142,179

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 651,233	\$ 710,913	\$ 843,048	\$ 132,135
Charges for Services	39,500	43,567	50,176	6,609
Miscellaneous	26,500	26,500	26,263	(237)
Interest	500	500	477	(23)
Total Revenues	717,733	781,480	919,964	138,484
EXPENDITURES				
Protection to Persons and Property	712,404	774,741	759,643	15,098
Administration	196,520	218,930	168,244	50,686
Total Expenditures	908,924	993,671	927,887	65,784
Deficiency of Revenues Over Expenditures Before Other Financing Uses	(191,191)	(212,191)	(7,923)	204,268
OTHER FINANCING SOURCES				
Transfers From Other Funds	124,791	124,791	124,791	0
Total Other Financing Sources	124,791	124,791	124,791	0
Net Changes in Fund Balance	(66,400)	(87,400)	116,868	204,268
Fund Balance - Beginning	66,400	87,400	87,723	323
Fund Balance - Ending	\$ 0	\$ 0	\$ 204,591	\$ 204,591

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

FEDERAL GRANTS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 706,650	\$ 706,650	\$ 474,708	\$ (231,942)
Miscellaneous	25,793	25,793	8,417	(17,376)
Total Revenues	732,443	732,443	483,125	(249,318)
EXPENDITURES				
Capital Projects	803,510	803,510	613,037	190,473
Total Expenditures	803,510	803,510	613,037	190,473
Deficiency of Revenues Over Expenditures Before Other Financing Uses	(71,067)	(71,067)	(129,912)	(58,845)
OTHER FINANCING SOURCES				
Transfers From Other Funds	171,512	171,512	102,121	(69,391)
Total Other Financing Sources	171,512	171,512	102,121	(69,391)
Net Changes in Fund Balance	100,445	100,445	(27,791)	(128,236)
Fund Balance - Beginning	(100,445)	(100,445)	95,831	196,276
Fund Balance - Ending	\$ 0	\$ 0	\$ 68,040	\$ 68,040

LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

OCCUPATIONAL TAX FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 995,000	\$ 995,000	\$ 1,142,170	\$ 147,170
Charges for Services	100	100	61	(39)
Miscellaneous	600	600	820	220
Interest	11,500	11,500	11,003	(497)
Total Revenues	<u>1,007,200</u>	<u>1,007,200</u>	<u>1,154,054</u>	<u>146,854</u>
EXPENDITURES				
General Government	58,327	58,327	52,430	5,897
Administration	17,296	17,296	16,353	943
Total Expenditures	<u>75,623</u>	<u>75,623</u>	<u>68,783</u>	<u>6,840</u>
Excess of Revenues Over Expenditures Before Other Financing Sources	<u>931,577</u>	<u>931,577</u>	<u>1,085,271</u>	<u>153,694</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(1,020,385)</u>	<u>(1,020,385)</u>	<u>(826,203)</u>	<u>194,182</u>
Total Other Financing Sources (Uses)	<u>(1,020,385)</u>	<u>(1,020,385)</u>	<u>(826,203)</u>	<u>194,182</u>
Net Changes in Fund Balance	(88,808)	(88,808)	259,068	347,876
Fund Balance - Beginning	<u>88,808</u>	<u>88,808</u>	<u>1,007,040</u>	<u>918,232</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,266,108</u>	<u>\$ 1,266,108</u>

LINCOLN COUNTY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**LINCOLN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

LINCOLN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	<u>Special Revenue Funds</u>		
	<u>LGEA Fund</u>	<u>Law Enforcement Facilities Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 20,616	\$ 10,992	\$ 31,608
Total Assets	<u>\$ 20,616</u>	<u>\$ 10,992</u>	<u>\$ 31,608</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 20,616	\$ 10,992	\$ 31,608
Total Fund Balances	<u>20,616</u>	<u>10,992</u>	<u>31,608</u>
Total Liabilities and Fund Balances	<u>\$ 20,616</u>	<u>\$ 10,992</u>	<u>\$ 31,608</u>

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LINCOLN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

LINCOLN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	<u>Special Revenue Funds</u>		
	<u>LGEA Fund</u>	<u>Law Enforcement Facilities Fund</u>	<u>Total Non-Major Governmental Funds</u>
REVENUES			
Intergovernmental	\$ 47,547	\$	\$ 47,547
Interest	122	77	199
Total Revenues	<u>47,669</u>	<u>77</u>	<u>47,746</u>
EXPENDITURES			
Roads	35,200		35,200
Total Expenditures	<u>35,200</u>	<u>0</u>	<u>35,200</u>
Excess of Revenues Over Expenditures Before Other Financing Sources	<u>12,469</u>	<u>77</u>	<u>12,546</u>
Net Change in Fund Balances	12,469	77	12,546
Fund Balances - Beginning	<u>8,147</u>	<u>10,915</u>	<u>19,062</u>
Fund Balances - Ending	<u>\$ 20,616</u>	<u>\$ 10,992</u>	<u>\$ 31,608</u>

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**LINCOLN COUNTY
COMMENT AND RECOMMENDATION**

For The Fiscal Year Ended June 30, 2005

**LINCOLN COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2005

STATE LAWS AND REGULATIONS

None

REPORTABLE CONDITION

Reference Number 2005-1

The County Treasurer Should Prepare Bank Reconciliations For The Public Properties Corporation

During our auditing procedures we noted the Public Properties Corporation bank accounts held at Central Bank were not being reconciled or accounted for in the Fiscal Court's general ledger. We noted two errors within the Public Properties Corporation bank accounts at Central Bank.

We recommend that the Fiscal Court create general ledger accounts for these bank accounts and reconcile the bank accounts to the general ledger accounts on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors.

County Judge/Executive Ronald W. Gilbert's Response:

I will create general ledger accounts for the Central Bank Accounts.

LINCOLN COUNTY
COMMENT AND RECOMMENDATION
Fiscal Year Ended June 30, 2005
(Continued)

PRIOR YEAR FINDINGS

The Former Road Department Secretary Converted Vending Machine Commission Checks To Cash

Follow-up in Current Year

There is no longer a vending machine at the road department. Additionally, the employee involved is no longer employed by the County.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Members of the Lincoln County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lincoln County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 22, 2006. Lincoln County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lincoln County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comment and recommendation.

- The County Treasurer Should Prepare Bank Reconciliations For The Public Properties Corporation

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Lincoln County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be disclosed under Governmental Auditing Standards.

This report is intended solely for the information and use of Lincoln County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

Moore Stephens Potter, LLP

Audit fieldwork completed -
February 22, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

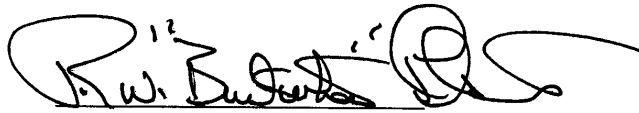
LINCOLN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

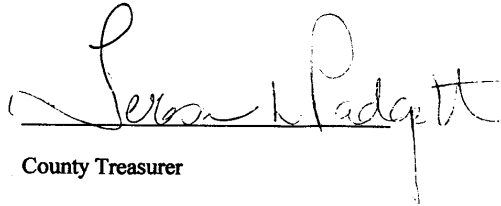
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LINCOLN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Lincoln County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "R. W. Burt", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Loren Padgett", written over a horizontal line.

County Treasurer